

Message Text

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ACTION EB-08

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UNCLAS SECTION 1 OF 3 NEW DELHI 6761

PARIS FOR USOECD ONLY

E.O. 11652: N/A
TAGS: ETRD EAID IN
SUBJECT: INDIAN EXPORT CREDIT SYSTEM

REF: A) STATE 083355 B) NEW DELHI 5838 C) NEW DELHI 6735

1. BUYER'S PARTICIPATION (SUBPARA 5G, 5J AND 5K OF REF A).
ALTHOUGH WE DO NOT HAVE SPECIFIC INFORMATION ON CASH PAY-
MENTS NORMALLY SOUGHT FROM THE BUYER BY THE CREDIT AGENCY,
WE BELIEVE INDIAN COMMERCIAL BANKS DO NOT INSIST ON ANY
PARTICIPATION OF THE BUYERS. BUYER'S BANK IS CONSIDERED
ONLY AN AGENT, AND THE INDIAN BANKS DO NOT REQUIRE ANY
DEGREE OF SECURITY FROM EITHER THE BUYER OR HIS BANK. SOME
EXPORTERS, PARTICULARLY THOSE EXPORTING TURN-KEY PROJECTS,
CAN ASK FOR BUYERS PARTICIPATION AS PART OF THE TERMS OF
PAYMENT. BANK WILL NORMALLY NOT EXTEND CREDIT IF THEY
DO NOT CONSIDER THE BUYER TO BE CREDIT WORTHY. HOWEVER,
ALMOST THE ENTIRE RISK IS BORNE BY ECGC, AND COMMERCIAL
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BANKS HAVE ONLY A NOMINAL SHARE IN CASE OF LOSS.

2. REPAYMENT TERMS. (SUBPARA 5J AND 5K OF REF A). EXPORTERS
PAY THE ENTIRE SHORT TERM CREDIT TO BANKS AS SOON AS PAYMENT
IS MADE BY THE BUYERS AND IS RECEIVED BY THEM. THE ENTIRE
CREDIT IS AUTOMATICALLY EXTINGUISHED AS THE PAYMENTS ARE
RECEIVED BY THE AUTHORIZED AGENT OF THE INDIAN EXPORTERS

(COMMERCIAL BANK EXTENDING THE EXPORT CREDIT). FOR LONG TERM CREDIT, SEE PARA 6, 9 REPAYMENT TERMS SUCH AS INTEREST RATE AND CREDIT PERIOD ARE NORMALLY NOT DEPENDENT ON THE CONTRACT VALUE WHICH, HOWEVER, IS THE DETERMINING FACTOR IN FIXING THE CREDIT AMOUNT.

3. SHORT TERM EXPORT-CREDIT. BANKS PROVIDE SHORT TERM CREDIT OF TWO TYPES - PACKING CREDIT AND POST-SHIPMENT CREDIT. PACKING CREDIT IS EXTENDED FOR FINANCING THE PURCHASE, PROCESSING, MANUFACTURING OR PACKING OF GOODS MEANT FOR EXPORT ORDERS. SALIENT FEATURES OF THE PACKING CREDIT ARE:

- IT IS EXTENDED ON THE STRENGTH OF EITHER A LETTER OF CREDIT OPENED BY THE BUYER IN FAVOR OF THE EXPORTER OR ON THE BASIS OF A FIRM EXPORT ORDER.

- SUPPLIERS TO EXPORT HOUSES ARE ALSO ELIGIBLE PROVIDED EXPORT HOUSES FURNISH DETAILS OF THE EXPORT ORDER SHARING AND CERTIFY THAT THEY WILL NOT ASK PACKING CREDIT FOR THE SUPPLIER'S SHARE.

- IT IS EXTENDED ON THE BASIS OF PAST PERFORMANCE IN CASE OF CERTAIN SPECIFIED COMMODITIES LIKE TEA, MARINE PRODUCTS, GEMS AND JEWELRY AND MACHINE TOOLS.

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- IT IS EXTENDED TO CONSULTANCY FIRMS AGAINST CONSULTANCY AGREEMENTS FOR MEETING THEIR EXPENSES OF THEIR TECHNICIANS AND OTHER STAFF AND FOR PURCHASE OF MATERIALS.

- IT IS EXTENDED FOR FINANCING IMPORTS UNDER ADVANCE IMPORT LICENSING SYSTEM.

- CREDIT LIMIT IS FIXED ON THE BASIS OF EXPORTER'S CREDIT NEEDS RATHER THAN THE FOB VALUE OF EXPORT ORDERS. HOWEVER, ECGC'S EXPORT PRODUCTION FINANCE GUARANTEE (SEE PARA 20D) ENABLES A BANK TO SANCTION AS MUCH AS 150 PERCENT OF THE FOB VALUE OF THE CONTRACT.

- BANKS CAN OPEN INLAND LETTERS OF CREDIT IN FAVOR OF SUPPLIERS UNDER "BACK TO BACK LETTER OF CREDIT ARRANGEMENT" FOR BUYING THE GOODS TO BE EXPORTED.

- THE CREDIT IS EXTENDED AS A LOAN, AN OVERDRAFT OR CASH CREDIT.

4. POST - SHIPMENT CREDIT IS EXTENDED TO AN EXPORTER AFTER THE SHIPMENT OF GOODS AND UNTIL THE DATE OF RECEIVING PROCEEDS OF EXPORT SALES. THIS IS GRANTED IN CONSIDERATION OF, OR ON THE SECURITY OF, ANY CASH PAYMENT RECEIVABLE BY WAY OF SUBSIDIES AND INCENTIVES. BANK GRANT ADVANCES TO THE EXTENT OF 100 PERCENT OF THESE RECEIVABLES. PROCEDURE FOR EXTENDING THIS CREDIT DEPENDS UPON THE TERMS OF PAYMENT. BANKS GENERALLY INSIST THAT EXPORTERS OBTAIN ECGC POLICIES AND ASSIGN THE BENEFITS TO THE BANKS.

5. FINANCING UNDER DEFERRED PAYMENT TERMS. EXPORTERS ARE REQUIRED TO REPATRIATE TO INDIA THE FULL EXPORT VALUE
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OF THE GOODS WITHIN SIX MONTHS OF THE DATE OF SHIPMENT FOR ALL COUNTRIES EXCEPT PAKISTAN AND AFGHANISTAN (3 MONTHS IN THEIR CASE). FOR REPATRIATION BEYOND THIS LIMIT, PRIOR APPROVAL OF THE RESERVE BANK OF INDIA (RBI) IS NECESSARY WHICH IS AVAILABLE ONLY FOR CERTAIN ENGINEERING GOODS. (EXPORTERS ARE REQUIRED TO MAKE REFERENCE TO RBI OR TO INDUSTRIAL DEVELOPMENT BANK OF INDIA (IDBI) FOR ANY CLARIFICATION ABOUT THE APPROVED ITEMS ON THE LIST. SEE BELOW FOR LIST OF ILLUSTRATIVE ITEMS) RBI HAS PERMITTED EXPORTERS OF THESE ENGINEERING GOODS TO QUOTE CREDIT TERMS TO THE BUYERS WITHOUT ITS PRIOR APPROVAL BUT SUBJECT TO THE FOLLOWING GUIDELINES:

- FOR THE EXPORT OF CAPITAL AND PRODUCER GOODS (INCLUDING SUGAR, TEXTILE, JUTE AND CEMENT MACHINERY; PLANT AND MACHINERY FOR FERTILIZERS, CHEMICALS AND PHARMACEUTICALS AND ALUMINUM; ELECTRICAL MACHINERY; POWER PLANTS; STEEL MILLS, ETC.). THE FOLLOWING TERMS ARE CONSIDERED REASONABLE:

CONTRACT VALUE (UPPER LIMITS INCLUDED)	MAXIMUM CREDIT PERIOD (INCLUDING INITIAL GRACE PERIOD)
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UPTO RS. ONE MILLION	3 YEARS
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RS. 1 TO 5 MILLION	5 YEARS
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RS. 5 TO 10 MILLION	7 YEARS
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OVER RS. 10 MILLION	10 YEARS
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- FOR CONSUMER AND OTHER ENGINEERING GOODS, THE
CREDIT PERIOD SHOULD NOT EXCEED 12 MONTHS
IRRESPECTIVE OF THE VALUE INVOLVED. THESE ITEMS
INCLUDE MACHINE TOOLS, HAND TOOLS, AND MOST
OF THE OTHER ENGINEERING GOODS.

- THE CREDIT PERIOD CAN BE MORE LIBERAL FOR
TURNKEY PROJECTS INVOLVING CONSTRUCTION, LOCAL
CIVIL WORKS AND COMMISSIONING.

- IN NO CASE SHOULD THE CREDIT EXCEED THE WORKING
LIFE SPAN OF THE PRODUCT.

6. BUYER'S CREDIT SCHEME. THIS SCHEME IS INTENDED TO
ENABLE INDIAN EXPORTERS TO EXPORT CAPITAL GOODS. THE
EXPORTERS' OBLIGATION WILL BE TO FULFILL THE COMMERCIAL
TERMS OF THE EXPORT CONTRACTS AND ONCE THIS IS DONE THEY
WILL BE PAID FOR THEIR EXPORTS OUT OF THE CREDITS.

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HIGHLIGHTS OF THIS SCHEME INCLUDE:

- APPLICATIONS FOR EXTENDING BUYER'S CREDIT ARE
ORDINARILY CONSIDERED ONLY FOR HIGH VALUE
CONTRACTS, RS. 10 MILLION OR MORE.

- IDBI PARTICIPATES, GENERALLY NOT EXCEEDING 50
PERCENT, WITH THE EXPORTER'S BANK OR A CONSORTIUM
OF BANKS (TO BE ESPECIALLY FORMED IF NEEDED)
IN TENDING A LINE OF CREDIT TO THE FOREIGN
BUYER.

- THE AVERAGE COST OF CREDIT TO THE BUYER IS
AROUND 6 1/2 PERCENT PER ANNUM (EXCLUSIVE
OF OTHER FINANCIAL ACTS LIKE GUARANTEES,
CREDIT INSURANCE CHARGES ETC.).

- THE PERIOD OF CREDIT DEPENDS UPON SEVERAL
FACTORS SUCH AS NATURE OF THE PROJECT, VALUE
OF THE CONTRACT AND OF THE ESTIMATED FOREIGN
EXCHANGE OUTGO FROM INDIA, THE BUYER'S
STATUS ETC.

- THE INDIAN EXPORTER IS EXPECTED TO HAVE A
DETAILED DISCUSSION WELL IN ADVANCE WITH IDBI
AND WITH HIS BANKER. IDBI WILL BE PREPARED
TO INDICATE IN PRINCIPLE ITS WILLINGNESS OR
NOT.

- IDBI WILL SATISFY ITSELF ABOUT ECONOMIC
VIABILITY OF THE PROJECT. THIS WILL TAKE INTO
ACCOUNT JUSTIFIABILITY OF COMMERCIAL
CONSIDERATION, CPABILITY OF INDIAN EXPORTER
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TO EXECUTE THE PROJECT, AND FINANCIAL SOUNDNESS
OF THE BUYER.

7. BANK GUARANTEES. BESIDES EXTENDING CREDITS, THE BANKS
PROVIDE GUARANTEES OF VARIOUS TYPES TO ENABLE THE EXPORTERS
TO EXECUTE THEIR ORDERS IN TIME. BANK OBTAIN THESE GUARANTEES
THROUGH ECGC. THE FULL INCIDENCE OF PREMIUMS PAID BY
BANKS TO ECGC IS REPORTEDLY CHARGED TO THE EXPORTERS'
ACCOUNT. GUARANTEES ARE FOR

- BID BOND/EARNEST MONEY/TENDER MONEY;
- EXPORT PERFORMANCE;
- ADVANCE PAYMENT;
- RETENTION MONEY;
- PACKING CREDIT;
- ADVANCE AGAINST CASH SUBSIDIES;
- OTHER POST-SHIPMENT TERM LOANS; AND
- BORROWING IN IMPORTER'S COUNTRY TO MEET LOCAL

CURRENCY REQUIREMENTS.

8. BID BONDS. INDIAN EXPORTERS EXECUTE BID-BONDS DURING THE PROCESS OF CONTRACTING OVERSEAS PROJECTS. RBI HAS ADVISED COMMERCIAL BANKS NOT TO INSIST ON ANY CASH MARGIN FOR BID BONDS AND GUARANTEES WHICH ARE COUNTER-GUARANTEED BY ECGC. IN THIS CASE COMMISSION CHARGES OF BANKS HAVE BEEN REDUCED TO 1/24 OF ONE PERCENT PER MONTH FOR AMOUNTS UP TO RS. 10 MILLION AND 1/48 OF ONE PERCENT FOR AMOUNTS OVER RS. 10 MILLIONS. BANKS HAVE ALSO BEEN ADVISED TO REFUND 75 PERCENT OF THEIR COMMISSION IN CASES OF UNSUCCESSFUL BID-BONDS.

9. INTEREST SUBSIDY. THIS SUPPLEMENTS PARAS 2 AND 5B OF REF B. RBI SETTLED INTEREST SUBSIDY CLAIMS OF RS. 91.9 MILLION RECEIVED FROM 54 ELGIBLE BANKS BETWEEN JULY 1976 AND JUNE 1977, OF WHICH PACKING CREDIT ACCOUNTED FOR 56 PERCENT AND THE REST WAS POST SHIPMENT CREDIT. TOTAL DISBURSEMENT OF INTEREST SUBSIDIES AS OF JUNE 30, 1977
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WAS RS. 491 MILLION.

10. INTEREST SUBSIDY AT 1 1/2 PERCENT PER ANNUM FROM THE MARKET DEVELOPMENT FUND OF GOI MINISTRY OF COMMERCE AND AT 3 PERCENT PER ANNUM FROM THE FUNDS ALLOTTED BY GOI MINISTRY OF EXTERNAL AFFAIRS, IS ALSO BEING PAID TO IDBI AND THE TWO PARTICIPATING COMMERCIAL BANKS ON THEIR SPECIAL BANK CREDIT OF RS. 250 MILLION TO CERTAIN FINANCIAL INSTITUTIONS IN BANGLADESH FOR THE IMPORT OF SPECIFIED CAPITAL GOODS. THE TOTAL AMOUNT OF THESE INTEREST SUBSIDIES FROM JULY 1976 TO JUNE 1977 WAS ONLY RS. 3.9 MILLION.

11. DUTY DRAWBACK CREDIT SCHEME. INDIAN EXPORTERS ARE ENTITLED FOR THE REFUND OF DUTIES, CUSTOMS AND EXCISE, LEVIED ON THEIR EXPORT PRODUCTS. EXPORTERS ARE GLIGIBLE FOR THIS REFUND ONLY ON COMPLETION OF TIME CONSUMING FORMALITIES. IN FEBRUARY 1976, THE RBI INTRODUCED A DUTY DRAWBACK CREDIT SCHEME WHICH ENVISAGES THAT BANKS WILL GRANT INTEREST-FREE ADVANCES UP TO 90 DAYS AGAINST THE EXPORTERS' ENTITLEMENTS AS PROVISIONALLY CERTIFIED BY THE CUSTOMS AUTHORITIES. THE ISSUE OF THESE PROVISIONAL ENTITLEMENTS HAS BEEN RATHER SLOW EXCEPT BY BOMBAY AUTHORITIES. THE MINIMUM ADMISSIBLE REFUND AMOUNT FOR THIS PURPOSE IS RS. 20,000. LIMITS AGGREGATING RS. 390 MILLION WERE SANCTIONED BY RBI TO ETC. THE FOLLOWING TWO TYPES OF POLICIES ARE AVAILABLE:

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- SPECIFIC SERVICES CONTRACT (COMPREHENSIVE
RISKS) POLICY, TO COVER COMMERCIAL AS WELL AS
POLITICAL RISKS REGARDING THE CONTRACT WITH
PRIVATE PARTIES ABROAD;

- SPECIFIC SERVICES CONTRACT (POLITICAL RISKS)
POLICY, TO COVER RISKS CONNECTED WITH CONTRACTS
WITH OVERSEAS GOVERNMENTS OR THOSE WHERE PAYMENTS
ARE GUARANTEED BY OVERSEAS GOVERNMENTS.

12. FINANCIAL GUARANTEES OF ECGC. THIS INFORMATION
SUPPLEMENTS INFORMATION PROVIDED IN PARA 5A OF REF B. IN
ORDER TO ASSIST EXPORTERS IN SECURING MORE EXPORT FINANCE
FROM BANKS, ECGC HAS INTRODUCED SIX FINANCIAL GUARANTEES
FOR COMMERCIAL BANKS. THESE GUARANTEES ENABLE THE
BANKS TO OFFER PRE-SHIPMENT OR POST SHIPMENTS FINANCING
FACILITIES UP TO 150 PERCENT OF THE FOB VALUE OF THE EXPORT
CONTRACT AND ALSO TO ISSUE GUARANTEES ON BEHALF OF THEIR
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EXPORTERS CLIENTS TO OVERSEAS BUYERS OR THE GOVERNMENT
AGENCIES. HIGHLIGHTS OF THESE GUARANTEES ARE:

POLICY-TITLE	NORMAL	PERCENT	SHARE OF ECGC	PREMIUM RATES
PERIOD	IN LOSS	(SUBJECT TO		
COVERED	MAXIMUM	LIABILITY FIXED	(PERCENT PER	
UNDER THE		MONTH)		
GUARANTEE)				
-. PACKING	1 YEAR	66 2/3 (INDIVIDUAL CASES)	0.075	
CREDIT	75 (WHOLE TURNOVERBASIS)	0.05		
GUARANTEE				

IN CASE OF SMALL MERCHANT-EXPORTERS WHERE EXPORT SALES
45 BANKS UP TO JUNE 30, 1977.

13. QUANTUM OF EXPORT CREDIT. THE EXPORT SECTOR
CONTINUES TO BE ACCORDED HIGH PRIORITY IN PROVIDING BANK
CREDIT. THE OUTSTANDING EXPORT CREDIT AS OF JUNE 30,
1977 WAS RS. 11.84 BILLION, COMPARED TO RS. 9.77 BILLION
TWELVE MONTHS BEFORE. PUBLIC SECTOR BANKS ACCOUNT FOR
80 PERCENT OF THIS INCREASE IN EXPORT CREDIT.

17. GENERAL NATURE OF ECGC. ALTHOUGH ECGC IS UNDER THE
ADMINISTRATIVE CONTROL OF GOI MINISTRY OF COMMERCE, IT
IS MANAGED BY A BOARD OF DIRECTORS REPRESENTING GOVERNMENT,
INDUSTRY, TRADE, BANKING AND OTHER INTERESTS. IT HAS
SEVEN BRANCHES IN MAJOR INDIAN CITIES. THE TOTAL VALUE OF
BUSINESS UNDERWRITTEN BY ECGC WAS RS. 29.8 BILLION IN
1976, 40 PERCENT UP OVER PREVIOUS YEAR. PRESENTLY ECGC
MAINTAINS INFORMATION ON SOME 75,000 FOREIGN BUYERS. ECGC
IS ALSO A MEMBER OF THE INTERNATIONAL UNION OF CREDIT
AND INVESTMENT INSURERS.

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14. SUPPLIER'S PARTICIPTION. (PARA 7 OF REF B). IN
CASE OF POLITICAL RISKS FOR EXPORTERS OF ENGINEERING GOODS
EXPORTING UNDER DEFERRED PAYMENT ARRANGEMENTS, ECGC PAYS
95 PERCENT OF THE LOSSES (90 PERCENT FOR OTHER EXPORTERS).

15. SERVICES POLICY. ECGC HAS INTRODUCED A SERVICES
POLICY WHICH COVERS SPECIFIC TRANSACTIONS RELATING TO A
WIDE RANGE OF SERVICES SUCH AS TECHNICAL OR PROFESSIONAL
SERVICES, COPYRIGHT FEES, ROYALTIES, HIRING AND LEASING
DURING THE PRECEDING 12 MONTHS WAS NOT OVER RS. 200,000,
ECGC SHARE IN LOSS IS 90 PERCENT.

B. POST-SHIPMENT	1 YEAR	75	0.05
EXPORT CREDIT			
GUARANTEE			

ECGC MAY SHARE LOSS OF 80 PERCENT IF A BANK ADVANCES

RS. 20 MILLION OR MORE FOR A SINGLE CONTRACT RELATING TO
ENGINEERING OR METALLURGICAL ITEMS.

C. EXPORT FINANCE 1 YEAR 75 0.075 (INDIVIDUAL CASES)
GUARANTEE 0.05 (WHOLE TURNOVER BAS
IS)

THIS POLICY ENABLES A BANK TO PROVIDE POST-SHIPMENT FINANCE
NOT OVER 50 PERCENT OF THE FOB VALUE AND NOT OVER THE
RECEIVABLE AMOUNT OF CASH SUBSIDY AND DUTY-DRAWBACK.

D.EXPORT PRODUCTION MAX. OF 66 2/3 0.075
FINANCE GUARANTEE 8 MONTHS

THIS POLICY ENABLES A BANK TO PROVIDE ADVANCES UP TO
150 PERCENT OF THE FOB VALUE BUT NOT OVER 100 PERCENT
OF THE DOMESTIC VALUE OF THE EXPORT PRODUCT. THESE ADVANCES
MAY BE GIVEN EVEN AT THE PRESHPMENT STAGE.

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E. EXPORT PERFORMANCE NOT SPECIFIED 75 0.075
GUARANTEE

THIS POLICY IS IN THE FORM OF COUNTER-GUARANTEE TO BANKS
FOR FACILITATING THEIR GUARANTEEING OF EXPORT PERFORMANCE
OF EXPORTERS OR OF GOI EXPORT ORGANIZATIONS.

F. TRANSFER NOT 75 (COMMERCIAL RISKS) VARYING ACCORDING
GUARANTEE SPECIFIED 90 (POLITICAL RISKS) TO COUNTRIES
AND PAYMENT TERMS

TRANSFER GUARANTEE ENABLES THE BANKS IN INDIA TO ADD
THEIR CONFIRMATION TO LETTERS OF CREDIT OPENED BY BANKS
ABROAD IN FAVOR OF EXPORTERS IN INDIA.

16. SPECIAL FEATURES OF ECGC. CREDIT INSURERS DO NOT
NORMALLY INDEMNIFY THE EXPORTERS WHEN THE BUYER DOES
NOT ACCEPT OR PAY FOR GOODS BECAUSE OF DIFFERENCES OVER
FULFILMENT OF CONTRACT-TERMS. HOWEVER, ECGC OFFERS TO
PAY A CLAIM AFTER THE DISPUTE BETWEEN THE PARTIES HAS BEEN
SETTLED. ECGC MAY ALSO SETTLE SUCH A CLAIM EVEN EARLIER WHEN THE
EXPORTERS BEARS A FIRST LOSS OF 20 PERCENT OF THE INVOICE
VALUE. ECGC PAYS 90 PERCENT OF THE BALANCE SUBJECT TO
A MAXIMUM OF 36 PERCENT OF THE GROSS INVOICE VALUE. ECGC
CONDUCTS ENQUIRIES, GETS STATUS REPORTS ON BUYERS AND THEN
FIXES EXPORTER'S CREDIT LIMIT SEPARATELY FOR EACH BUYER.
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Status: NATIVE
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To: SECSTATE WASHDC PARIS MULTIPLE
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